

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6544

BILL NUMBER: HB 1815

DATE PREPARED: Apr 29, 2001

BILL AMENDED: Apr 29, 2001

SUBJECT: PERF and TRF.

FISCAL ANALYST: James Sperlik

PHONE NUMBER: 232-9866

FUNDS AFFECTED: X

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: (CCR Amended) This bill: (1) provides a 1% Cost of Living Adjustment (COLA) in 2001 to members of the Public Employees' Retirement Fund (PERF) and members of the Indiana State Teachers' Retirement Fund (TRF) (or their survivors or beneficiaries) who retired or were disabled before July 2, 1999;

(2) provides a supplemental "thirteenth check" benefit to retired teachers and certain retired public employees (or their survivors or beneficiaries) on November 1, 2001, and on November 1, 2002;

(3) provides that a member of PERF or TRF may change the allocation among available funds of the amount credited to the member's annuity savings account under rules established by the PERF Board and the TRF Board. It specifies that the PERF Board and TRF Board shall allow a member to make a selection or change any existing selection at least once each quarter. (Current law provides that the allocation may be changed only one time every 12 months.);

(4) increases the percentages used in computing retirement benefits under the Prosecuting Attorneys Retirement Fund.

Effective Date: (CCR Amended) July 1, 2001; January 1, 2002; July 1, 2002.

Explanation of State Expenditures: (Revised) (1) This bill provides a 1% COLA in 2001 for members of PERF and TRF.

<u>Teachers' Retirement Fund</u>	<u>Pre-1996</u>	<u>1996 Plan</u>
Increase in Unfunded Actuarial Accrued Liability	\$29.6 M	\$45,100
Increase in Retired Life 2001 Payroll (Payout)	\$3.4 M	\$4,670

The fund affected is the State General Fund for the Pre-1996 Plan.

<u>Public Employees' Retirement Fund</u>	<u>State</u>	<u>PERF Local Units</u>	<u>Total</u>	<u>Excise Police</u>	<u>Legislator</u>
Estimated Increase in Unfunded Accrued Liability**	(\$9,675,646)	(\$11,530,494)	(\$21,206,140)	(\$138,523)	(\$26,003)
Estimated Increase in Annual Funding**	(\$711,312)	(\$847,673)	(\$1,558,985)	(\$10,184)	(\$2,283)
Estimated Increase In Annual Benefits*	\$849,916	\$1,011,655	\$1,860,571	\$11,387	\$1,949
Increase in Annual Funding as % of Payroll**	-0.06%	-0.04%	-0.05%	-0.09%	NA

The fund affected for PERF is the State General Fund at 55%, or \$391,222, and various dedicated funds at 45%, or \$320,090. The funds affected for the Excise Police and Conservation Officers are the State General Fund, the Fish and Wildlife Fund, and the Enforcement Fund. The fund affected for the Legislators is the State General Fund.

*The increase in annual benefits is the increase in annual benefits compared to a zero percent COLA.

**The estimated changes in the unfunded accrued liability, annual funding, and the annual funding as a percent of payroll are negative because the comparison is to a 2% COLA as assumed by the actuary in the Actuarial Valuation.

(2) The bill also provides for a 13th Check to members of TRF and certain members of PERF.

Teachers' Retirement Fund

13th Check Payable November 1, 2001: This provision calls for a 13th check payable from the Teacher Annuity Reserve Account. The amount to be distributed is the difference between the balance in the Teacher Annuity Reserve Account on June 30, 2000, (which amounted to \$649.2 M) minus the computed liability (which at that time totaled \$570.3 M) times 10%. The result of \$7.89 M is the amount to be distributed to retirees who meet the requirements of the proposal.

13th Check Payable November 1, 2002: The proposal also calls for a 13th check payable from the Teacher Annuity Reserve Account on November 1, 2002. Again, the amount to be distributed is the difference between the balance in the Teacher Annuity Reserve Account on June 30, 2001, (which is estimated at \$669.2 M) minus the computed liability (which is estimated to total \$593.1 M) times 10%. The result amounts to \$7.61 M, which is to be distributed to retirees who meet the requirements of the proposal.

Public Employees' Retirement Fund

The bill provides a 13th check equal to the greater of \$50 or an amount determined through a formula for TRF. For PERF, a 13th check is equal to the greater of \$100 or a percentage of the annual benefit according to the following table. The 13th check would be payable on November 1, 2001, and November 1, 2002, for both TRF and PERF.

PERF 13th Check

<u>November 1, 2001</u> <u>Calendar Year of</u> <u>Last Retirement of Member</u>	<u>November 1, 2002</u> <u>Calendar Year of</u> <u>Last Retirement of Member</u>	<u>Applicable</u> <u>Percentage</u>
1950 through 1974	1950 through 1975	6%
1975 through 1982	1976 through 1983	5%
1983 through 1987	1984 through 1988	4%
1988 through 1991	1989 through 1992	3%
1992 through 2000	1993 through 2001	2%

The 13th check will be payable to members of PERF and the Excise Police and Conservation Officers' Retirement Plan.

<u>13th Check Payable</u> <u>November 1, 2001</u>	<u>State</u>	<u>PERF Local</u> <u>Units</u>	<u>Total</u>	<u>Excise</u> <u>Police</u>	<u>Legislators</u>
Estimated Increase in Unfunded Accrued Liability	\$2,590,000	\$3,080,000	\$5,670,000	\$38,300	NA
Estimated Increase in Annual Funding	\$190,000	\$227,000	\$417,000	\$2,800	NA
Increase in Annual Funding as % of Payroll	0.02%	0.01%	0.01%	0.03%	NA

For PERF, the funds affected are the State General Fund (55%), or \$104,500, and various dedicated funds (45%), or \$85,500. This split represents the amount the funds contribute to personal services in the State Budget.

The funds affected for the Excise Police and Conservation Officers are the State General Fund, the Fish and Wildlife Fund, and the Enforcement Fund.

<u>13th Check Payable November 1, 2002</u>	<u>State</u>	<u>PERF Local Units</u>	<u>Total</u>	<u>Excise Police</u>	<u>Legislators</u>
Estimated Increase in Unfunded Accrued Liability	\$2,700,000	\$3,210,000	\$5,910,000	\$40,300	NA
Estimated Increase in Annual Funding	\$198,000	\$237,000	\$435,000	\$3,000	NA
Increase in Annual Funding as % of Payroll	0.02%	0.01%	0.01%	0.03%	NA

For PERF, the funds affected are the State General Fund (55%), or \$108,900, and various dedicated funds (45%), or \$89,100. This split represents the amount the funds contribute to personal services in the State Budget.

The funds affected for the Excise Police and Conservation Officers are the State General Fund, the Fish and Wildlife Fund, and the Enforcement Fund.

(3) The bill also provides that a member of PERF or TRF may change the allocation among available funds of the amount credited to the member's annuity savings account under rules established by the PERF board and the TRF board. It specifies that the PERF board and TRF board shall allow a member to make a selection or change any existing selection at least once each quarter. (Current law provides that the allocation may be changed only one time every 12 months.).

The funds report that this provision will have no fiscal impact on them.

(4) The bill also increases the percentages used in computing retirement benefits under the Prosecuting Attorneys Retirement Fund. The increase in annual funding is estimated at \$621,261. The fund affected is the State General Fund. The increase in unfunded accrued liabilities is estimated at \$5,000,000.

Explanation of State Revenues:

Explanation of Local Expenditures: See tables in Explanation of State Expenditures.

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund; Teachers' Retirement Fund.

Local Agencies Affected: Local units with members in PERF and local school corporations with members in TRF.

Information Sources: Doug Todd of McCready & Keene, actuaries for PERF, the Conservation and Excise Officers' Retirement Fund, the Legislators Defined Benefit Fund, and the Prosecuting Attorneys' Retirement Fund, 576-1508; Denise Jones of Gabriel Roeder Smith & Co., actuaries for the TRF, 1-800-521-0498.

DEFINITIONS

Thirteenth Check- A thirteenth check is an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes. Unlike a cost-of-living adjustment, the amount of this supplemental retirement allowance does not increase the pension base.

Funding- a systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Unfunded Actuarial Liability- (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Cost of Living Adjustment- An across-the-board increase (or decrease) in wages in pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index.